

Chester J. Culver
Governor

Patty Judge
Lt. Governor



Terry Rich
Chief Executive Officer

Iowa Lottery Report On Operations

To: Members of the House Government Oversight Committee and Senate Government Oversight Committee

From: Terry Rich, CEO

Date: June 2009

The winning streak for Iowa Lottery players claiming big prizes has continued into calendar year 2009, with a Marshalltown man and a Des Moines man topping the list so far this year.



Ricky Rushton of Marshalltown

On Feb. 24, Ricky Rushton of Marshalltown claimed a \$1 million Powerball® prize. Rushton, 48, who works the overnight shift in the cafeteria at the Swift & Co. pork-processing plant in Marshalltown, won a \$200,000 prize by matching the first five numbers in the Feb. 21 Powerball drawing, but because he'd added the Power Play option to the ticket, his prize was multiplied by five for a total prize of \$1 million.

Rushton said he planned to use part of his winnings to buy a house but he'd put the rest away for retirement.

And on May 6, a Des Moines man claimed the top prize of \$250,000 in the lottery's "Lucky Diamonds" instant-scratch game.

Russ Twelmeyer, 68, who is retired, was born and raised in Hawaii and said his winnings would help his wife and him make trips back there.



Russ Twelmeyer of Des Moines

FY 2009 Early Results and FY 2010 Budget

In the Lottery's January 2009 appearance before your committees, we noted that storm damage and the weakened U.S. economy had impacted lottery sales and proceeds to the state, which were running behind the Lottery's budgeted goals for the year. The Lottery provided those details at that time not only to your committees but also to the Governor's Office and Department of Management so all would be aware of the latest figures for state budgeting purposes.

Attachment A is the budget document the Lottery reviewed with your committees in January, providing projections for our year-end totals based upon the latest results at that time. In the months since then, the lottery has worked hard and tried some new concepts to build those numbers up, and our efforts are making a difference.

Year-to-year figures through the end of April, the latest month for which the Lottery has finalized figures, show that Lottery sales were about 3.7 percent behind last year's results, but proceeds to the state were running slightly ahead of FY 2008 results. That's good news for the state budget and we hope to make up even more ground in May and June of this year, as sales during those two months last year were impacted by widespread storm and flood damage in Iowa.

We now believe that total lottery proceeds to the state ultimately will finish the year ahead of FY 2008 results, and will be somewhere between the \$57.7 million in proceeds we had projected in January and the Lottery's original projection for the year, which was \$61.3 million.

There are a few main reasons for the positive news. The first is a result of the business flexibility achieved with creation of the Iowa Lottery Authority. As an Authority, the Lottery for the first time was able to purchase property, doing so in 2004 by issuing revenue bonds to purchase both the lottery's headquarters building in Des Moines and the vending machines it currently uses to sell instant-scratch and pull-tab tickets in retail locations across the state. The property purchases have resulted in long-term savings to the state and that difference is especially noticeable this year, as the annual payment on the bonds has decreased from about \$2 million last year to about \$100,000 this year.

The long-term savings achieved by the purchase of property and the decreased annual property costs that took effect this year would not have been possible without creation of the Iowa Lottery Authority.

The Authority's business flexibility also allowed the Lottery to develop the "Keep Your Ticket Handy" campaign this spring with the Iowa Division of Tourism, which has helped raise awareness of the Lottery and travel opportunities in Iowa while creating new opportunities for businesses across the state. The campaign will be discussed in further detail later in this report.

In addition, the prizes paid out in our instant-scratch games thus far for FY 2009 are running behind our scratch-game prize totals during the same time period a year earlier. That simply is

a function of the random nature of lottery games, which can have variations in a particular year, but average out over time. One game in particular has seen a difference in prize claims, and the amount involved is significant. Players won four of the \$1 million top prizes available in our \$20 "Set For Life" scratch game in FY 2008, but haven't won any of those prizes yet in FY 2009. Four \$1 million prizes are still available in the game, they simply haven't been won yet.

Year-to-year comparisons for the lottery's sales categories are (July-April time period):

	FY 2009	FY 2008	Change
Instant-scratch games	\$114 million	\$115.8 million	-1.6 percent
Pick 3	\$5.4 million	\$5.3 million	+2.3 percent
Powerball	\$47.4 million	\$55.4 million	-14.5 percent
Hot Lotto	\$11.8 million	\$9.9 million	+20 percent
Pick 4	\$2.1 million	\$1.9 million	+9.5 percent
\$100,000 Cash Game	\$3.4 million	\$3.6 million	-4.2 percent
Pull-tab games	\$17.8 million	\$17.9 million	-0.7 percent

FY 2010 Budget:

In the Lottery's December report to the Oversight Committees, we noted that the Lottery Board at its Sept. 30 meeting had approved the FY 2010 budget for the lottery. That budget took into account the economic difficulties faced by our state and projected no growth in lottery sales from FY 2009 to FY 2010.

At its May 27 meeting, the Lottery Board then voted to amend the lottery's FY 2010 budget to reflect decisions that were made during the 2009 legislative session. The Lottery does not anticipate that the changes will have an impact on lottery proceeds to the state.

The adjustments include salary adjustment for those receiving salary step increases as mandated by the state personnel contract; and a discontinuation of lottery funding to the Iowa Gambling Treatment Fund. The Iowa Gambling Treatment Fund was discontinued in the Health and Human Services appropriations bill this session, and we are currently making adjustments to ensure the proceeds that the Lottery has been providing to that fund will go instead into the General Fund beginning in FY 2010.

As part of the lottery's standard procedures, the lottery budget figures are being entered into the state's I-3 accounting system, where they will be available for review by all interested parties. In addition, detailed updates to the lottery's sales and budget figures also are regularly provided through the state's I-3 accounting system.

Copies of the FY 2010 Lottery Operations budget and the budget for the Lottery Fund are both included with this report as **Attachments B and C**. Once we have finalized figures for FY 2009, which likely will be available in late July, we also will provide those to your committees.

The voting members of the Iowa Lottery Board are: Chairperson Mary Junge, a CPA and practicing tax and estate-planning attorney in Cedar Rapids; Elaine Baxter, a former state legislator and secretary of state from Burlington; Mike Klappholz of Cedar Rapids, retired

Cedar Rapids chief of police; Tom Rial, a Des Moines marketing consultant; and Brad Schroeder of Pleasant Hill, an attorney whose law practice is based in Des Moines. State Treasurer Michael Fitzgerald is an ex-officio member of the Board.

Lottery Response To Ombudsman's Office Report

In April, the state Ombudsman's Office released a report on the Lottery. The Lottery, which had called for quick release of the report, commended the Ombudsman's Office for responding to its call so that public discussion of the issues could begin immediately.

The Lottery's official response to the report is included with this report as **Attachment D**, and we're happy to have the opportunity to discuss it further with you at the end of our presentation today.

The Lottery Board discussed the Ombudsman's report during its May 27 meeting. The Lottery agrees with or has already implemented many of the concepts in principle outlined in the recommendations from the Ombudsman's Office, although we reserve the right to question specific research background within the report. The Lottery disagrees with the remainder of the recommendations due to concerns regarding undue governmental intrusion, red tape and impractical business application; game security concerns; personal security risks; and cost-benefit factors.

Lottery Proceeds To Veterans Trust Fund Top \$2 Million



The Lottery's latest transfer of proceeds to the Iowa Veterans Trust Fund brought the total raised for the Fund from the sale of Lottery tickets to nearly \$2.4 million. The Lottery had initially estimated it would raise between \$2 million and \$3 million annually for the Veterans Trust Fund and it remains on track to do so in fiscal year 2009.

Legislation dedicating some Lottery revenues to veterans' causes was signed into law by Gov. Chet Culver in March 2008 and the Lottery's first games to benefit the Iowa Veterans Trust Fund began sales in July of that year. Proceeds from two instant-scratch and two pull-tab games each year are dedicated to the Trust Fund.

A new round of lottery games to benefit the Veterans Trust Fund will be released in July.

The Iowa Veterans Trust Fund was created to provide assistance to qualified veterans in paying for expenses such as:

- Travel expenses for wounded veterans directly related to follow-up medical care;
- Job training or college tuition assistance;

- ❑ Unemployment assistance during a period of unemployment due to prolonged physical or mental illness or disability resulting from military service;
- ❑ Dental, vision and hearing assistance for veterans living in a long-term care facility or under a home healthcare contract;
- ❑ Benefits for a child or children or disabled or deceased veterans following Sept. 11, 2001;
- ❑ And individual or family counseling programs.

Latest Audit Of Iowa Lottery

Each year, the Iowa Lottery is audited by the State Auditor's Office. The auditors review all aspects of the Lottery's operations as required by state law. The auditor's efforts are in addition to the security and integrity standards the Lottery has adopted and employed throughout its operations to ensure the veracity of its games.

State Auditor David Vautt released the results of the FY 2008 audit of the Lottery on Feb. 23, providing another clean report for Iowa's lottery. Copies of the audit are provided by the auditor's office to the governor, Department of Management, Legislative Services Agency, members of the Lottery board and the Lottery CEO. In addition, the audit report is available on the state auditor's Web site for all interested parties at: <http://auditor.iowa.gov/reports/reports.htm>.

The audit reported no material weaknesses in internal control over financial reporting and no instances of non-compliance or other matters reportable under Government Auditing Standards.

Keep Your Ticket Handy Campaign

In May, the Iowa Lottery and Iowa Tourism Office joined with businesses and attractions across the state in a campaign designed to give the entire state a boost in these tough economic times. The initiative is designed to encourage travel in Iowa this summer by offering special discounts from attractions and businesses to those who have a Powerball® ticket.



The campaign offers a new take on the concept of Iowans helping their neighbors and communities during tough times – by banding together, hopefully we can all come out ahead.

The slogan of the campaign, which began in early May, is “Keep Your Ticket Handy.” The Iowa attractions that are part of the campaign are making special offers to Powerball players, and the offers change with each Powerball drawing. Players can learn about the latest special deals by visiting www.ialottery.com or www.traveliowa.com.

The featured attractions in the campaign include the Iowa Speedway in Newton; Honey Creek Resort in Moravia; Adventureland amusement park in Altoona; Riverboat Twilight, which offers riverboat trips from Le Claire to Dubuque; King's Pointe Waterpark Resort in Storm Lake; Iowa Marriott Hotels at 14 participating locations; PZAZZ/FunCity entertainment complex in Burlington; and the National Mississippi River Museum & Aquarium in Dubuque.

The Iowa Lottery and Tourism Office also worked with media statewide to support the initiative by running public service announcements in support of travel and tourism in Iowa. We estimate that the initiative has resulted in at least half a million dollars worth of advertising that was provided at no charge and has served as a valuable reminder about all there is to see and do in Iowa.

Businesses that are participating in the campaign say it's made an invaluable difference in their operations, something they've especially appreciated during this tough economic time.

Brian Fleming is the director of sales and marketing at the PZAZZ!/Fun City entertainment complex in Burlington. He said the campaign has resulted in impressive redemption numbers for the facility's coupons and added that, "The statewide media exposure proved to be beneficial for FunCity and our entire complex overall."

Midwest Millions



The Kansas and Iowa lotteries are now 2-and-2 when it comes to top-prize winners in the joint "Midwest Millions" instant-scratch game!

Our two states' lotteries became the first in the nation to sell a joint instant-scratch game when the initial version of Midwest Millions began sales in September 2007. We decided to build on that success by releasing a second version of Midwest Millions in September 2008.

The idea behind Midwest Millions is to apply to another product line the "Powerball concept" that has enabled states to join together in lotto games and offer bigger prizes and more chances to win than they would have been able to achieve on their own.

Both versions of Midwest Millions saw strong sales and players sent in more than 319,000 tickets as entries in the games' second-chance prize drawings. Both of the \$500,000 top-prize winners in the initial version of the game were Iowa Lottery players, but both top-prize winners in the latest game were from Kansas!

We believe the concept has staying power and are planning a third round of the game, with sales to begin in September 2009.

Security Checks At Retail Locations



Early this year, the Iowa Lottery began conducting unannounced security checks at retail locations to see how winning tickets would be handled. In three rounds of checks at 200 locations thus far, all prizes have been properly paid by store personnel.

Iowa is one of just three states in the country where lottery retail security checks have been conducted. In Minnesota, eight people who worked at retail locations were charged with felony lottery fraud after retail compliance checks by the Minnesota Lottery in December and January. Investigators said each of the clerks kept a winning ticket they were presented and attempted to claim the prize themselves. And this year in California, more than two dozen people working at retail outlets have been arrested for the grand theft of winning lottery tickets as part of checks by the California Lottery. All of the California suspects were accused of cheating lottery customers.

The Iowa Lottery has used different approaches in its checks, which were conducted in February, April and May. Male and female lottery employees have posed as customers having lottery tickets checked; the prizes involved have ranged from \$1 up to \$100; the Lottery's retail visits have been conducted during the day and at night; and a range of retail locations have been visited, including convenience stores, grocery stores, gas stations, bar/taverns and fraternal organizations.

The Lottery continues to work with retail locations to ensure that store personnel are requiring customers to sign their lottery tickets before they can be checked or cashed. In the Lottery's earliest checks, about half the retail locations did not require signatures on tickets, but those numbers have improved in the latest checks.

The Lottery will continue its security checks as part of its ongoing focus on security and integrity.

International Game Discussions

In the Lottery's 2007 reports to the Oversight Committees and in appearances and memos provided to the committees since then, the Lottery has provided initial details about discussions for a possible international lotto game.

As the Lottery has reported earlier, possible plans for such a game remain in the discussion stage. The Iowa Lottery continues to monitor any developments regarding a possible international game, but is not taking a leadership role in organization of such a game. The Lottery will continue to inform the Government Oversight Committees of developments as they continue.

Discussion of a possible international game has been underway since 2001. Several different game ideas, prize structures and game names have been discussed through the years, although final decisions have never been made.

TouchPlay Lawsuits

Although numerous lawsuits were filed against the Lottery and the State following the 2006 shutdown of the TouchPlay program, only four remain pending. TouchPlay-related lawsuits are currently pending in Polk, Scott, Floyd, and Webster counties. Those suits involve seven individual and corporate plaintiffs.

Trial in the Webster County lawsuit is scheduled for October 2009. The Floyd County lawsuit is set for trial in February 2010. The Scott County case was dismissed on Summary Judgment. One plaintiff's claims in the Polk County case also were dismissed on Summary Judgment. However, the Summary Judgment decisions in both cases have been appealed.

Except as outlined above, all other TouchPlay cases and claims previously reported on have been settled or dismissed. The Lottery continues to work with and follow the recommendations of the Iowa Attorney General's Office on the TouchPlay-related legal matters.

New And Expanding Casinos In Iowa

The Lottery continues to monitor and evaluate casino expansion in Iowa, and whether it has an impact on lottery sales. Since calendar year 2006, four new casinos have opened in Iowa and several existing properties have expanded. The Iowa Racing and Gaming Commission is scheduled in July to decide whether to allow additional casinos in the state.

While the Iowa Lottery does not consider itself to be in direct competition with casinos, it does compete with them and any other entertainment venue for consumers' disposable income. When riverboat gambling was introduced in Iowa in the early 1990s and slot machines underwent a major expansion in the mid-1990s, there was a noticeable, negative impact on Iowa Lottery sales. After experiencing multiple-year declines, lottery sales in Iowa eventually

stabilized and began to rebound in 2002. Lottery executives will continue to monitor casino expansion in Iowa and the potential impact that could have on lottery sales.

Increased Payouts For Amusement Devices

The Lottery also will monitor and evaluate its sales to determine whether there is any impact from an increase in the payments allowable for those who play amusement devices in Iowa. Language included in the Standings Bill from this session will allow merchandise prizes of up to \$50 to be awarded to those who play amusement devices, up from the current limit of \$5.

The Lottery competes with amusement devices and any other entertainment option for consumers' disposable income, and many of the machines are in operation in locations where lottery tickets are sold, such as convenience stores and bars. Lottery executives will continue to monitor the situation and report back to your committees as necessary.

Federal Internet Gambling Legislation

In May, legislation was introduced in Congress that could have a huge impact on gambling activities in the United States and Iowa Lottery sales. House Resolution 2267 is sponsored by U.S. Rep. Barney Frank of Massachusetts and 15 other members of Congress. It would allow for the regulation of Internet gambling by the federal government and the licensing of those who operated Internet gambling facilities.

The bill would permit any state or Indian tribe to limit Internet wagering by its residents. If a state governor provided notice to the Secretary of the Treasury that Internet wagering from within his/her state was prohibited, then an Internet gambling licensee would be prohibited from accepting wagers from residents of that state. The Attorney General of that state would have the authority to enforce any violations by licensees of those restrictions.

It is unclear how or if the bill if enacted would apply to state-operated lotteries. But such a change in the landscape regarding Internet gambling would almost certainly impact lottery sales. The Lottery will continue to monitor the legislation.

RFP For Lottery Sales And Validations System

The Iowa Lottery is preparing an RFP for the biggest contract involved in its operation. The request for proposals is for the communications equipment, software, and computerized terminals that are used to sell and validate lottery tickets in more than 2,500 retail locations statewide.

Since its start, each of the Lottery's sales and validations systems has been in use for several years. But like all electronic or computer equipment, each system has needed to be updated and replaced over time.

The Lottery's current system has been in place since 2001. In our December report to your committees, the Lottery reported that it had exercised the final option year of the contract for the system with Scientific Games International of Alpharetta, Ga., and that the contract will expire in July 2011. The Lottery Board voted to exercise the final option in exchange for a 34 percent reduction in current contract rates applicable to lotto and instant-scratch ticket sales during that year, which would result in estimated cost savings of \$2 million or more in FY 2011.

The Lottery plans to issue its RFP to vendors in late August of this year, with the goal of having the Lottery's Board of Directors award a contract for a new system in June 2010. The winning vendor then would have about a year to manufacture the system, undergo lottery acceptance testing and install equipment by July 3, 2011.

Budget for Lottery Fund

	2008 ACTUAL	2009 BOARD APPROVED BUDGET	2009 PROJECTED	2010 BOARD APPROVED BUDGET	2010 PROJECTED
Resources					
Lottery Sales	249,217,468	245,330,000	233,884,000	245,330,000	233,884,000
Interest	699,922	570,000	350,000	570,000	350,000
Application Fees	5,150	5,000	5,000	5,000	5,000
Other	47,962	5,000	5,000	5,000	5,000
Total Resources	249,970,502	245,910,000	234,244,000	245,910,000	234,244,000
Expenditures					
Prizes	144,669,575	136,539,184	130,168,876	137,539,184	131,122,221
Retailer Compensation	15,650,431	15,080,000	14,376,435	15,080,000	14,376,435
Marketing, Education and Information	7,283,980	9,813,200	9,355,360	9,813,200	9,355,360
Retailer Lottery System	7,823,721	7,762,000	7,399,860	7,762,000	7,399,860
Instant/PT Ticket Expense	2,444,025	2,496,000	2,295,591	2,496,000	2,295,591
Terminal Communications	447,676	425,000	425,000	425,000	425,000
Terminal equipment/Ticket dispensers	82,479	100,000	100,000	100,000	100,000
PTVM/ITVM Servicing	492,495	525,000	525,000	525,000	525,000
Interest Expense (ITVM/PTVM/BUILDING)	109,467	50,000	50,000	50,000	50,000
Depreciation Expense (ITVM/PTVM/BUILDING)	1,222,260	1,222,588	1,222,588	745,807	1,222,588 (1)
Refunds/Other	-	2,100	2,100	2,100	2,100
Lottery Operations	11,884,873	11,686,616	11,686,616	11,686,616	11,686,616
Total Expenditures	192,110,982	185,701,688	177,607,426	186,224,907	178,560,771
Net Income					
Prior to Net Asset Change	57,859,520	60,208,312	56,636,574	59,685,093	55,683,229
Less increase (decrease) in net assets	1,313,402	(1,122,588)	(1,122,588)	(645,807)	(645,807) (1)
After Net Asset Change	56,546,118	61,330,900	57,759,162	60,330,900	56,329,036
Transfers					
Proceeds Transfer	55,296,265	57,090,040	53,576,632	56,090,040	52,146,506
Veterans Transfer	-	3,011,310	3,011,310	3,011,310	3,011,310
Gamblers Treatment Transfer	1,249,853	1,229,550	1,171,220	1,229,550	1,171,220
Total Expenditures and Transfers	249,970,502	245,910,000	234,244,000	245,910,000	234,244,000

(1) - Decrease in Instant & Pulltab ticket vending machines depreciation. All machines will be fully depreciated by the end of FY 2010.

Lottery Operations - Budget Detail

	2010 BOARD ORIGINAL BUDGET	2010 BOARD APPROVED BUDGET
Personnel - Salaries	9,307,541	9,334,541
Personnel -Travel in State	110,000	105,000
State Vehicle Operation	355,000	285,000
Vehicle Depreciation	170,010	110,010
Personnel -Travel out of State	40,000	40,000
Office Supplies	90,000	85,000
Facility Maintenance Supplies	15,000	15,000
Other Supplies	1,000	5,000
Printing and Binding	18,000	10,000
Postage	5,000	5,000
Communications	115,000	110,000
Rentals	280,000	240,000
Utilities	116,515	101,515
Prof & Scientific Services	96,190	136,190
Outside Services	118,060	76,730
Outside Repairs	100,000	300,000
Attorney General	160,000	140,000
Auditor of State	80,000	80,000
Reimbursement to Other Agencies	202,000	172,000
ITS Reimbursement	40,000	40,000
Equipment	20,000	20,000
Equipment Non Inventory	25,000	20,000
IT Equipment (Inventory, non-inventory)	70,000	150,330
Other Expenses	150,000	130,000
Fees	2,300	2,300
Total Lottery Operations	11,686,616	11,713,616
		<hr/>
2010 ORIGINAL BUDGET		11,686,616
SALARY ADJUSTMENT		27,000
		<hr/>
2010 BOARD APPROVED BUDGET		11,713,616
		<hr/>

Budget for Lottery Fund

	2010 ORIGINAL BUDGET	2010 BOARD APPROVED BUDGET
Resources		
Lottery Sales	245,330,000	245,430,000
Interest	570,000	570,000
Application Fees	5,000	5,000
Other -	5,000	5,000
Total Resources	245,910,000	246,010,000
Expenditures		
Prizes	137,539,184	137,597,684
Retailer Compensation	15,080,000	15,086,000
Marketing, Education and Information	9,813,200	9,817,200
Retailer Lottery System	7,762,000	7,765,000
Instant/PT Ticket Expense	2,496,000	2,497,000
Terminal Communications	425,000	425,000
Terminal equipment/Ticket dispensers	100,000	100,000
PTVM/ITVM Servicing	525,000	525,000
Interest Expense (ITVM/PTVM/BUILDING)	50,000	50,000
Depreciation Expense (ITVM/PTVM/BUILDING)	745,807	745,807
Refunds/Other	2,100	2,100
Lottery Operations	11,686,616	11,713,616
Total Expenditures	186,224,907	186,324,407
Net Income		
Prior to Net Asset Change	59,685,093	59,685,593
Increase (decrease) in net assets	(645,807)	(645,807)
After Net Asset Change	60,330,900	60,331,400
Transfers		
Proceeds Transfer	56,090,040	57,320,090
Veterans Transfer	3,011,310	3,011,310
Gamblers Treatment Transfer	1,229,550	-
Total Transfers	60,330,900	60,331,400
Total Expenditures, Transfers & Change in Net Assets	245,910,000	246,010,000

Increase (Decrease) In Net Assets

	2010 ORIGINAL BUDGET	2010 BOARD APPROVED BUDGET
Bonds payment	100,000	100,000
Depreciation Expense (ITVM/PTVM/BUILDING)	(745,807)	(745,807)
Other adjustments - capital assets	-	-
Total Change in Net Assets	(645,807)	(645,807)

April 15, 2009

Mr. William Angrick II
Iowa Citizens' Aide/Ombudsman
Ola Babcock Miller Building
1112 East Grand Avenue
Des Moines, IA 50319

Dear Bill:

Thank you for providing us with a copy of your upcoming report. We know that your office spent a lot of time and effort to produce it and we are happy to review your work.

We are treating your agency's report in the same serious business manner and with the same open-minded reception that we give to an audit conducted at the Iowa Lottery, whether it be a financial audit or an audit of our information-technology systems.

The end result of your work is a report that admittedly "did not uncover a case of large-scale fraud" involving Iowa's lottery, supporting your original assessment that "the vast majority of Iowa retailers and clerks are honest, reputable and do not engage in fraud or theft." All citizens of Iowa and anyone beyond our state's borders who has ever played an Iowa Lottery game can be heartened by that news.

That finding makes sense when you consider that in calendar year 2008, the Lottery's Security Department handled 182 inquiries compared to the 148,136,301 transactions that year for the sale and cashing of Lottery tickets in our state. In other words, 99.99999877 percent of those transactions had no security-related inquiry associated with them.

There is nothing in your agency's report we have not already discussed, considered or implemented at the Iowa Lottery. However, the conclusions and opinions appear to be based upon idealistic possibilities, while our decisions must be based upon what is reasonable, practical and fiscally responsible. We also believe the process must involve input from Iowa citizens and lawmakers.

Because the primary focus in the report is your agency's opinions about the possibility of retailer fraud, it is important that these facts be very clear:

- No fraud or theft was committed or suspected by any state employee involved in the regulation of Iowa's lottery.
- No large-scale fraud was found or reported involving Iowa's lottery.
- Integrity is at the heart of our operations. We do not believe that your overall conclusions are a true representation of what you found at the Iowa Lottery.
- We believe that we are conforming with Iowa Code section 99G.2(3) that states in its entirety: "that lottery games shall be operated and managed in a manner that provides continuing entertainment to the public, maximizes revenues, and ensures that the lottery is operated with integrity and dignity and free from political influence."
- We have made enhancements to many facets of Iowa Lottery operations through the years, including the area of security, and strive for continuous improvement.

With those thoughts in mind, we agree with or have already implemented many of the concepts outlined in your agency's recommendations, although we reserve the right to question specific research background within the report. We disagree with the remainder due to concerns regarding undue governmental intrusion, red tape and impractical business application; game security concerns; personal security risks; and cost-benefit factors.

For example, your agency's report mentions self-checkers. We've been looking at ticket checkers for years. As with any technology, products get better and less costly over time. We believe this will be a viable option in the very near future, but we're not there yet.

We also do not agree that administrative rules or laws need to be revised to achieve an enhancement of lottery security in Iowa.

As someone new to state government, I want to express my hope that we can work together to elevate the positive tone of our discussions. I fear that the interactions of our offices thus far have left the public with the unfortunate impression of government quarreling and fingerpointing, not to mention the enormous resources that were involved. Producing this report involved the staff time of about two dozen state employees over two years' time, when both our organizations desire the same result: to protect the citizens of Iowa. I believe that government should lead by example and when offices argue, it leaves a less-than-flattering impression of how government works. I look forward to working with you to renew our efforts toward a harmonious working relationship.

Lastly, we ask that the report be released to the public immediately so that in the spirit of true openness we can ensure the most open, timely and fair discussion possible of our differences of opinion.

Thank you again for your agency's efforts. I truly believe we share the same goals.

Sincerely,

Terry Rich
Chief Executive Officer